

## THE IMPACT OF MARITIME TRADE LIBERALIZATION AND ECONOMIC INTEGRATION TO MALAYSIA

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### ABSTRACT

*Malaysian maritime trade sector is very much liberalized with 80 percent of Malaysian goods and cargoes being shipped to Malaysia using foreign ships. With regional liberalization of trade and services being top on ASEAN agenda, steps are being taken to further liberalize trade and services sectors. This article explores the maritime logistic industry in Malaysia and analyzes how the liberalization of maritime trade, and now, ASEAN economic integration, impacts on the conduct, structure and performance of its maritime trade sector. The benefits of regional liberalization of trade must be balanced with effective policies and meticulous implementation to protect the interest of all parties: foreign and domestic. Unmonitored and unregulated liberalization will be harmful to both society and economy. However, bias and ineffective protectionism can bring even more harm. This paper starts with a background analysis and is followed by an examination on the challenges and issues associated with liberalization of the maritime trade sector. Suggestions and recommendations to strengthen the maritime trade sector during and post liberalization are also included.*

**KEYWORDS:** *Maritime Trade, Liberalization & Policy*

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### 1. INTRODUCTION

The liberalization of regional economy is high on the ASEAN agenda. ASEAN leaders in 2007 reasserted their firm commitment to accelerate the establishment of ASEAN Community by 2015 at the 12<sup>th</sup> ASEAN Summit. This is in line with the ASEAN Vision 2020 and the ASEAN Concord II. This eventually leads to the Cebu Declaration on the Acceleration of the Establishment of an ASEAN Community by 2015.<sup>1</sup>

ASEAN is a region of over 600 million people. The combined GDP is no less than US\$1.5 trillion. In 2010, during the 17<sup>th</sup> ASEAN Summit in Vietnam, ASEAN leaders agreed to adopt the Master Plan on ASEAN Connectivity (MPAC) to accelerate integration in this region.<sup>2</sup>

There is a unanimous agreement that the establishment of the ASEAN Economic Community (AEC) by 2015 should not be delayed in order to transform ASEAN into a free region, with a freer flow of capital, movement of goods, skilled labour, services etc. The main idea is for the establishment of a single regional common market of ASEAN countries. This is necessary as currently, the gap between countries in this region is the biggest in the world. The poorest countries including Myanmar and Laos are lagging behind the world's most advanced economy like Singapore. Integration will hopefully bring a better balance while it simultaneously

<sup>1</sup> 'ASEAN Economic Community Blueprint' <<http://www.asean.org/archive/5187-10.pdf>>

<sup>2</sup> Sanchita Basu Das (ed), *Enhancing ASEAN's Connectivity* (ISEAS Publishing 2013)

benefits all.

Under the ninth Package of Commitments, Malaysia and the other ASEAN countries would be liberalizing the maritime services sector as well.<sup>3</sup> The Malaysian government is expected to proceed with liberalization of maritime services from 2014.<sup>4</sup> Currently, ASEAN has designated forty-seven ports as the main ports in the trans-ASEAN transport network.<sup>5</sup> One needs to see the ASEAN economic integration as an on-going process for which the initial foundation has been laid down.<sup>6</sup> Gradual liberalization is essential to achieve ASEAN integration goal but it must be done meticulously, taking into account local needs and interest.

Currently, there are insufficient researches on the rationale and effects of the formulation of policies to protect domestic interests reflected in the loss of billions due to inadequate maritime trade policy. For example, in 2007, Malaysia's transport sector suffered a deficit of USD4.5 billion compared to earlier year. The deficit was due to over reliance on foreign freight, particularly in the transport of goods.<sup>7</sup>

In addition to that, the Malaysia Ship-owners Association (MASA) had also pointed out that the Malaysian domestic shipping industry has been swamped by rising operating costs, including higher fuel and manning costs and poor market conditions. There are other problems faced by ship operators in Malaysia including prolonged and unsolved shortage of qualified local seafarers, coupled with the increasing costs of employing foreign workers in this sector.

Further liberalization might seem positive as foreign investors might invest more in the Malaysian maritime trade sector. However, it is not necessarily the best way forward. Currently, Malaysia is losing tens of billions every year in freight payment due to its failure to provide sufficient domestic ships to cater to its own need. By having a sufficient shipping fleet, Malaysia would be able to save tens of billions. A better direction is to gradually strengthen Malaysian maritime trade sector first by building capacity: human resource, infrastructure, facilities etc. Knowledge-transfer and expertise sharing with global leaders in maritime trade sector is also essential. There must be a clear national maritime policy.

Some fiscal, financial, administrative and legislative efforts have been taken to improve Malaysian maritime trade sector from promotion to further investment and various regulatory activities. There are a number of laws regulating the shipping industry in Malaysia including:

- Merchant Shipping Ordinance 1952 and various regulations made under it
- Merchant Shipping Act (Oil Pollution) 1994
- Ports Authorities Act 1963
- Ports (Privatisation) Act 1990

<sup>3</sup> Maritime services sector usually refer to maritime transportation and associated service. On the other hand, maritime trade sector usually refer to import-export involving carriage of goods by sea.

<sup>4</sup> 'Malaysia likely to liberalise services sub-sectors early next year', *The Star* (22 March 2013)

<<http://www.thestar.com.my/Business/Business-News/2013/03/22/Malaysia-likely-to-liberalise-services-subsectors-early-next-year.aspx>>

<sup>5</sup> Nguyen The Phuong, 'Current state of ASEAN Infrastructure' in Sanchita Basu Das (ed), *Enhancing ASEAN's Connectivity* (ISEAS Publishing 2013)

<sup>6</sup> Sanchita Basu Das, 'Assessing the progress and impediments towards an ASEAN economic community' in Sanchita Basu Das, *ASEAN Economic Community Scorecard: Performance and Perception* (ISEAS Publishing 2013) p17

<sup>7</sup> <[http://www.unescap.org/tid/projects/egmtf\\_s3Damiri.pdf](http://www.unescap.org/tid/projects/egmtf_s3Damiri.pdf)>

- Carriage of Goods by Sea Act 1950

There are several government agencies involved in promoting shipping activities including:

- Maritime Division of the Ministry of Transport Malaysia: This division aims to develop a modern, efficient and a safe maritime sector while making Malaysia a successful maritime country.
- Marine Departments: responsible for marine safety and prevention of pollution
- Maritime Institute of Malaysia (MIMA): a policy research institute set up to conduct research and play on advisory role to the government on maritime and shipping matters.
- Malaysian Maritime Enforcement Agency (MMEA): this agency aims to improve maritime safety in Malaysia waters.

Other main players in Malaysian maritime trade include Malaysia International Shipping Corp. (MISC)<sup>8</sup>. Ocean shipping is currently undertaken by MISC and other local companies with international shipping services. The majority of the vessels are liquefied natural gas (LNG) carriers, bulk carriers, chemical tankers, and container ships.

## **2. LIBERALIZATION POLICY**

The Malaysian government has been promoting local commercial shipping with attractive financial incentives including tax exemptions and Cabotage Policy. Briefly, Cabotage Policy is a policy where all ships must go through the main port in Malaysia and cannot go directly to other ports in Malaysia. The idea is to strengthen the main port but this article will also highlight the many problems that can be traced directly to this policy.

Logistics (under the Services Sector) has been identified as one of the engines of growth under the Third Industrial Master Plan (IMP3) of Malaysia. The plan is a 15-year economic blueprint that maps out Malaysia's growth strategy from 2006 to 2020, when the country aims to achieve developed nation status. However, it is unclear how the targets can be achieved, as there are no clear plans of action or milestones for monitoring the achievement of the goals of IMP3.<sup>9</sup>

To strengthen the logistics sector, in 2007, the Malaysian government has established the Malaysia Logistics Council (MLC) to be the central point for the overall coordination on everything related to logistics from strategies, policies, regulations and rules. Unfortunately, by 2010, the role of MLC began to diminish. Three years later, at the end of 2013, the revival of MLC was announced with the secretary-general of the Ministry of International Trade and Industry and the Transport Ministry as one of the co-chairs.

MLC is going to address major issues like the Asean integration and how it will impact Malaysia's logistics sector. The council has a newly revised organizational structure that includes a steering committee and four focus groups, namely on transport and infrastructure; institutional framework and regulatory; industry, best practices and development initiatives; and trade facilitation.

Despite the revival, some were disappointed that the latest government policy, the Government Transformation

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<sup>8</sup> MISC with 100 vessels and a modern and well-diversified relatively young fleet of 27 LNG tankers is the world's single largest owner operator of LNG tankers.

Programme and the Economic Transformation Programme (ETP), failed to include logistics as one of the key focus areas.

Liberalization in the Malaysian maritime services sector is currently being undertaken in three levels; (1) ASEAN: through ASEAN Framework Agreement in Services (AFAS), (2) WTO: through progressive liberalization and (3) Free Trade Agreements (FTAs).

In 1995, Malaysia signed the ASEAN Framework Agreement on Services (AFAS) to improve cooperation among service suppliers and gradually liberalize trade in services in this region especially by eliminating or reducing restrictions. The approach adopted by AFAS is in line with General Agreement on Trade in Services (GATS). ASEAN Framework Agreement in Services (AFAS) is very useful as it provides the broad guidelines, from market access to equal national treatment. Dispute settlements and areas of cooperation are also included.

Later, according to Malaysia's commitment under ASEAN Comprehensive Investment Agreement (ACIA)<sup>10</sup>, there are 24 sub-sectors to be liberalized ranging from transport to logistics, each to be liberalized under the ninth and tenth Package of Commitments, respectively.

To accelerate foreign investment in emerging market, barriers to entry in the form of foreign investment restrictions, unfair tax laws and bureaucracy need to be reduced. Relaxation of unnecessary barriers and the willingness to open the economy in the form of deregulation and willingness to relinquish certain degree of state control to private sector are the usually starting point of liberalization. The quality of transportation, logistics and supply chain system also play an important role.

Malaysia must be meticulous in its attempt to liberalize more of its services sub-sectors to attract foreign direct investments (FDIs) as the Asean region is getting crowded with new competitors. Malaysia has implemented some measures to attract and maintain foreign investment and this includes allowing foreign investors to hold majority stakes in most enterprises excluding "strategic" industries such as banking, telecommunications, and energy, easing insurance regulation, curtailing powers of the Foreign Investment Committee and lowering the minimum quota for Malay ownership in publicly traded companies (from 30 percent to 12.5 percent). However, currently, Malaysia's share of the FDI stock in Asean is still below the others.

The services sector contributes 55 per cent to the Gross Domestic Product (GDP) in 2008, of which, 47.6 per cent was contributed by non-government services. The sector is also responsible for 57 per cent of the total employment in Malaysia.<sup>11</sup>

In 2009 the Malaysian government had further liberalized the services sector by immediately liberalizing 27 services subsectors, with no equity condition imposed. To increase investments into the services sector, a National Committee for Approval of Investments in the Services Sector has been established under MIDA to act as a principal point to receive and process applications of investments in the services sector. However, this exclude investments in financial services, air travel, utilities, Economic Development Corridors, Multimedia Super Corridor (MSC) and Bionexus status

<sup>9</sup> Tham Siew Yean, 'Malaysia's Domestic Policy for Trade Expansion' in Ishak Yusoff, *Malaysia's Economy: Past, Present & Future* (Malaysian Strategic Research Centre 2009) 129

<sup>10</sup> ASEAN Comprehensive Investment Agreement (ACIA) is an agreement that encompasses four aspects of investments liberalisation, facilitation, protection and promotion, with benefits now extended to Asean-based foreign investors.

<sup>11</sup> Dato' Sri Mohd Najib bin Tun Haji Abdul Razak, 'Liberalisation of the services sector' (Press Statement, 22 April 2009)

companies and distributive trade.

Concerning the service sector, the Malaysian Services Development Council (MSDC) was also formed in 2007. The purpose is to monitor, review, discuss and resolve issues that involve the development of the services industry. In addition, it also coordinates the implementation of liberalization programmes.

### **Cabotage Policy**

In 1980, the government of Malaysia decided to introduce the Cabotage Policy. Under this policy, any domestic trade can only be served by Malaysian-flagged ship. Foreign vessels will need consent from Malaysian Ship-owners' Association even if there is no local vessel able to provide the service. Under this policy, only vessels registered in Malaysia are allowed to load and unload cargoes in the ports of Malaysia.

The idea is to make Port Klang the container hub port of Malaysia. The Cabotage Policy aims to make Malaysia a maritime nation and to reduce dependence on foreign ships by strengthening Malaysian domestic shipping. The policy has been strictly implemented since 1<sup>st</sup> January 1980 after amendment of the Merchant Shipping Act 1952. The Domestic Shipping Licensing Board (DSLBB) was appointed to regulate and control domestic shipping between ports in Malaysia. Section 65A of Part IIB of the MSO defines "domestic shipping" as the use of a ship:

- To provide services, other than fishing, in the territorial waters of Malaysia or the exclusive economic zone; or
- For the shipment of goods or the carriage of passengers (i) from any port or place in Malaysia to another port or place in Malaysia; or (ii) from any port or place in Malaysia to any place in the exclusive economic zone or vice versa.

Merchant Shipping Ordinance (MSO) prohibits non-Malaysian ships from engaging in domestic shipping. Exemption is allowed under MSO if license is obtained from the DSLBB.

Due to the policy, Sabah and Sarawak requires the services of feeder vessels from Port Klang. As comparison, all West Malaysian states require only simple truck or container train to transport cargoes. The negative implications of the Cabotage Policy or its possible benefits have never been fully researched in the past.

The Cabotage Policy resulted in numerous complaints. The essence of the complaints is that this policy is unnecessary and resulted in significant increase of price for goods delivered to Sabah and Sarawak. Instead of going directly to Sabah and Sarawak, all cargoes must proceed to Peninsular first and this will result in extra cost that eventually will be borne by the end-consumer.

In 2009, it was announced that the government would consider the cancellation of the Cabotage Policy for containerized transshipment cargoes for sectors between Sepanggar, Bintulu, Kuching and Tanjung Pelepas and vice-versa. The "selective liberalization" would have allowed foreign vessels to carry these cargoes between the sectors without the need for a domestic shipping license. However, the full-scale implementation of the liberalization never took place.

There are two views on Cabotage Policy. The first view is that the Cabotage Policy is necessary to protect local interest. The second view is that the Cabotage Policy is unnecessary and is causing more harms than benefits, and the

country is better off without it.

### **The 1<sup>st</sup> View**

The supporters argue that the Cabotage Policy protect and promote national shipping industry. The implementation of the Cabotage Policy is associated with growth in the number of local vessels to 2,321 in 2008 from 380 vessels in 1984. The Cabotage Policy has encouraged more locals to venture into shipping. In 1984 there were only 622 vessels with a total gross tonnage of 1.3 million tonnes but today, the nation has at least 4,291 vessels with a total gross tonnage of 9.9 million tonnes.

This sector has given employment to more than 15,000 Malaysians nationwide including in Sabah and Sarawak. The policy has also created opportunities for supporting industries such as shipyards and slipways in both East and West Malaysia.

### **The 2<sup>nd</sup> View**

The opponents of this policy argue that this policy bring more harm than benefit. This non-tariff barrier has harmed the domestic economy and is inconsistent with the premise of trade liberalization agenda. The contention is that the Cabotage Policy was the main cause of a 30 per cent rise in the prices of goods in Sabah. The policy is said to unfairly limit market access and has formed unnecessary monopoly in the shipping industry. Monopoly is sometimes inefficient since it charges a price above marginal cost and not all consumers would buy it. The quantity sold in a market affected by monopoly is below the socially efficient level.<sup>12</sup> To avoid subsequent monopoly by foreign shipping companies after liberalization of maritime trade that follow the possible abolishment of Cabotage Policy, the liberalization should be done gradually during which time the local shipping industry must be strengthen with clear objectives, policies and implementation of plan.

According to Suffian et al:

“Cabotage Policy as non-tariff barriers, it may have helped to shield foreign competition but it has also harmed domestic economic growth particularly in East Malaysia. The implications of the Cabotage Policy causes limited market access and natural monopoly in the shipping industry. Protectionism is supposed to allow a government to mobilise resources for infant industry to grow. Resources invested in infant industry should improve domestic firms’ learning curve, making them more competitive. However the policy has adversely impacted on domestic shipping industry, slowing down the East Malaysia export-oriented growth.”<sup>13</sup>

The practice of protecting domestic trade against foreign competition by imposing limitation, quotas and tariffs on incoming goods or services is usually done to ensure a positive balance of payments, where imports of foreign goods or foreign services threaten to outweigh local interest, or it may be done to protect a nascent industry.<sup>14</sup>

<sup>12</sup> N. Gregory Mankiw, Goh Soo Khoon, Ong Hway Boon, Yen Siew Hwa, Cheng Ming Yu, Muszafarshah Mohd Mustafa, and Yvonne Lee Lean Ee, *Principles of Economics: Malaysia Edition* (Cengage Learning Asia Pte Ltd 2013) p.299

<sup>13</sup> Firdausi Suffian, Mohammed Rahezzal Shah Abdul Karim, Abdul Kadir Rosline, and Kamal Solhaimi Fadzil, ‘Policy Fiasco: The Sabotage of Cabotage Policy Malaysia’ (2013) *International Journal of Social Science and Humanity*, Vol. 3, No. 6, November 2013, p.514

The Cabotage Policy arguably has negative result to East Malaysia. Port Klang is located more than 1500km from Kota Kinabalu, Sabah. Direct shipment from Vietnam or Hong Kong will not be possible although geographically they are closer to Sabah ports. It is economically more feasible to enable direct shipment.

### **3. PRO AND CONS**

There are many benefits of liberalization. As a direct result of WTO works on liberalization and the promotion of trade and international corroboration, many conflicts, both trade and militarily have been avoided.<sup>15</sup> There are many other alleged benefits behind the liberalization of maritime trade sector including improved employment and wages through growth and the strengthening of the economy. It is also a major contributor to economic globalization that opens new investment and trade opportunities.

The apparent benefits of liberalization of trade at regional level include the following:

- Better regional cooperation
- New markets for products
- Uniformity
- More attractive to foreign investors

Four main reasons are usually given to support liberalization: (1) Transfer of technology and expertise, (2) Better opportunities for joint ventures, (3) Increased productivity and (4) the creation of higher value employment opportunities.

At the same time, there are valid concerns on the negative effects of open trade including the effect on employment. While some analysis shows that liberalization can be an engine for job creation, this is only so when it is accompanied by appropriate regulatory, employment and social policies, so that everyone can reap the benefits of the open markets.

However, it is noted that there is no proven causal link between foreign investment and poverty reduction and while 80% of FDI is in the form of mergers and acquisitions, little in the form of productive investment that creates jobs and exports.<sup>16</sup>

Unregulated liberalization can bring more harms than benefits. In this modern liberalized world, poverty increased and the number of those living on less than \$2 per day has increased by almost 50% since 1980.<sup>17</sup>

The projected benefits are merely hypothetical and in the case of developing countries, the hypothesis can be entirely misleading since unregulated and unplanned liberalization can adversely affects developing nations.<sup>18</sup>

In addition to that, the share of the world's poorest countries has declined by more than 40 per cent since 1980 to

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<sup>14</sup> Donald Marron, *30-Second Economics* (Ivy Press Limited 2010) p.135

<sup>15</sup> Carole Murray, David Halloway and Daren Timson-Hunt, *Schmitthoff's Export Trade: The law and Practice of International Trade* (Eleventh ed)(Sweet & Maxwell 2007) 881

<sup>16</sup> World Development Movement, "Briefing from Doha" citing Prof. Alan Winters, 'Trade Liberalisation and Poverty', DFID 1999

<sup>17</sup> World Bank, *Global Economic Outlook 2000*

<sup>18</sup> Winters, Alan, 1999: 'Trade liberalisation and Poverty', London: Paper for DFID

a mere 0.4 per cent.<sup>19</sup> Therefore, contrary to popular misconception, liberalization is not always the solution that must be opted by every government at the detriments of its people. A concise target is necessary to ensure that the society benefits accordingly from the gradual liberalization.

In the context of Malaysia, unregulated liberalization is not always a good thing. For example, if Malaysia adopted liberalization policy from the beginning for its automobile industry, its automobile industry will not even survive its infant stage. Proton, the national car for Malaysia is possible partly due to Malaysia's decision not to embrace liberalization blindly but instead catering to its own needs first.

The strategic use of local content policy enabled the Malaysians to build a "national car" in cooperation with Mitsubishi; that now has achieved about 80% local content and has captured 70 % of the Malaysian market.

If the international standard, TRIMS (Trade Related Investment Measures agreement) were followed and applied, there would be no national car as the various incentives would make that illegal today.<sup>20</sup> Analysis by Jomo K.S further indicates that investment incentives with conditions attached rather than trade or investment liberalization has been crucial to Malaysian growth since independence.<sup>21</sup>

#### 4. RECOMMENDATIONS AND SUGGESTIONS

Unlike its automobile industry, Malaysia has adopted a partial liberalization policy when it comes to the global maritime trade sector. In other words, various incentives are made to attract foreign investment etc. However, when it comes to local maritime trade or maritime trade involving East Malaysia, the Cabotage Policy is adopted. The Cabotage Policy will be a good policy only if it comes together with a clear plan to strengthen Malaysia' shipping sector with proper capacity building. Proper research must also be undertaken to analyze the effect on the price of goods since the welfare of the people must always be a priority. Otherwise, the harm will be more than the benefit.

Without a clear and conclusive plan to develop the Malaysian maritime trade sector to be self-sufficient, Malaysia nowadays depends heavily on foreign ships to handle even its domestic cargoes. 80% of the cargoes from Malaysia are using foreign ship, despite the fact that Malaysia is a maritime nation.

The effect of unmonitored and unregulated liberalizations is negative. Wage inequality has increased (20-30% fall in wages) in many Latin American countries that have undertaken rapid trade liberalization.

By looking at the situation comprehensively, it is clear that the benefits of liberalization can only be achieved if everything is in place. There must be a clear policy, sufficient funding, capable management, excellent collaboration and effective implementations in order to reap the benefits of liberalization.

The basic economy idea is that accumulation of capital, consistent growth and a strong production economy must be in place first and liberalization can gradually come later.

France and Germany made the mistake of embracing laissez-faire without meticulous consideration for a while. Upon realizing the loss suffered, they reversed themselves in the 1880's. The United Kingdom only proceeds with economic liberalization agenda after becoming a world leading economy, after its industrialization. Even the champion of

<sup>19</sup> UNCTAD, Conference on Least Developed Countries 1999

<sup>20</sup> Autoportal, "Malaysia Market Summary"

<sup>21</sup> Jomo K.S. (ed), Malaysian Industrial Policy (NUS Press 2007)



free trade, the United State used to protect itself behind high tariff and protectionist policies before its emergence as world's sole superpower.

Attempt to proceed with unmonitored and unregulated liberalization of the maritime trade sector will bring more harms than any perceived benefits. However, with the liberalization policy already adopted at both global and regional level by Malaysia, the only option left is to be meticulous by ensuring that proper safeguards and action plans are in place.

To further improve competitiveness, the following can be considered. Firstly, while liberalization will improve the maritime trade sector in Malaysia to a certain extent, the fundamentals must be corrected first. One important issue that must be addressed is the lack of expertise and manpower. Many of the experts in the maritime trade preferred to go to Singapore, Hong Kong or other countries due to better incentives and offers. This resulted in an insufficient number of experts to cater to the Malaysian maritime trade sector. The low salary offered in Malaysia, coupled with a serious bureaucracy makes it unattractive to many experts. Lack of manpower and expertise must be properly addressed, as the quality of the project is equal to the quality of the people managing it.

The government and ship owners should also work closely together in building up local human capital for the shipping industry by ways of training grants, increasing and upgrading more affordable training facilities, and providing better financial rewards and welfare to local seafarers.

Human resources development is very important in the service sector. It must be included and given high priority in any service sector development plan. To move forward, the focus should not be on low-cost maritime services. Proper investment in developing sufficient manpower to cater to high-end and high-revenue generating activities is necessary. To improve manpower, departments teaching Marine Technology and Marine Science have been set up at public universities. Local and international training programs, seminars, and conferences has been held, but the number is still not satisfactory.

There should be adequate focus on ports and facilities' development and improvement as well. Two main factors have been identified as the deciding factor for shipping lines in choosing port: (1) port efficiency and (2) cost. Other countries in this region, including Thailand and Vietnam, have been investing heavily in maritime infrastructure and will eventually overtake Malaysia in some aspects of the maritime industry unless actions are taken now.

There must be more incentives and the facilities offered by these ports must be increased. According to expert, the following needs to be considered<sup>22</sup>:

- Evaluation on the environment in which they operate
- Identification of current trends
- Anticipation of new trends
- Formulation of viable strategies to face the challenges.

Basic facilities must be improved as well. For example, in 2010, the Port Klang road system, which was identified in the roadmap for the development of freight logistics, was drawn up. This is made under the Third Industrial Master Plan 2006-2020). However, the follow up seems to be inadequate.

The issue of outdated laws must be addressed. If Malaysian rules and regulations or environment are less competitive, ship-owners could easily re-flag their fleet to another nationality which offers more incentives or advantages. Currently, ship operators were affected by various issues including unattractive taxation, and strict enforcement by Immigration Department requiring owners to pay levies on foreign seafarers for ship plying within Sarawak waters, and the requirement that all foreign nationals get the Malaysian Seaman ID and Certificate of Recognition (COR).<sup>23</sup>

Next, the liberalization of the maritime service sector must be accompanied by proper preparation. This includes strengthening domestic regulations, the identification of issues that currently impedes the growth and development, the identification of incentives that could assist the industry to become more competitive, mergers and acquisitions. According to Yean:

‘... trade liberalization increasingly focuses on domestic rules and regulations that have an impact on trade, but that was traditionally considered to be under the sovereign rights of nation. Malaysia, as a small and open developing economy, has to manage its trade negotiations and trade liberalization process well in order to meet the twin needs of development and trade.’<sup>24</sup>

## CONCLUSIONS

Concerning future direction that should be taken on the Cabotage Policy, the wishes and desire of those affected the most by the policy (Malaysian from East Malaysia) must be taken into consideration. More consultation is needed and a clear master plan together with specific targets and dateline should be made available.

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<sup>22</sup> Nazery Khalid, ‘Global Trends Affecting Port Development and their implications for Malaysia ports’ (Maritime Institute of Malaysia 2007)

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<sup>24</sup> Tham Siew Yean, ‘Malaysia's Domestic Policy for Trade Expansion’ in Ishak Yusoff, *Malaysia's Economy: Past, Present & Future* (Malaysian Strategic Research Centre 2009) p129

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